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ANNUAL REPORT

Riverside
Yarns Limited

1969

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Riverside

Directors	R. J. ANDERSON J. S. DEACON S. E. EDWARDS, Q.C. A. GOLD WM. W. LAIRD, Q.C.
Officers	A. GOLD, *PRESIDENT* WM. W. LAIRD, Q.C., *EXECUTIVE VICE PRESIDENT* L. R. DOBBIN, *VICE PRESIDENT & GENERAL MANAGER* S. E. EDWARDS, Q.C., *SECRETARY*
Head Office and Plant	GALT, Ontario
Bankers	Royal Bank of Canada
Solicitors	Fraser & Beatty
Transfer Agents and Registrars	National Trust Company, Toronto
Auditors	Thorne, Gunn, Helliwell & Christenson Chartered Accountants, Toronto
Annual Meeting	June 25, 1970 - 11:00 a.m. Head Office, Galt, Ontario

Report of the directors

TO THE SHAREHOLDERS

Your Board of Directors are pleased to submit their report for the year ended December 31, 1969, together with the financial statements and the report of the auditors.

FINANCIAL HIGHLIGHTS

	1969	1968	% INCREASE or (DECREASE)
Net Sales	$4,797,135	$4,745,554	1%
Net Profit	92,604	172,478	(46%)
Net Profit per Class A Share	3.09	5.75	(46%)
Cash Flow from Operations	322,282	383,121	(16%)
Long Term Debt	655,000	494,900	32%
Working Capital	414,273	621,510	(33%)
Working Capital Ratio	1.35:1	1.68:1	(20%)

SALES

Sales for the year 1969 showed a nominal increase of 1% over 1968. The three main factors affecting sales in 1969 were:

a) the tremendous increase of low priced imported yarn which resulted in a delay in yarn purchases by knitters as they waited for prices to stabilize,

b) the tight money policy which caused a sudden reduction of retail inventories with consequent reduction in orders throughout the trade,

c) phasing out of unprofitable lines.

EARNINGS

Net profit for the year 1969 was 46% less than the year 1968. This reduction was caused by:

a) reduced profit margins as a result of imported yarn.

b) lower sales in the products that were affected by imported yarns.

DEBT AND CAPITAL EXPENDITURES

Long term debt is up 32% as a result of a $300,000 loan obtained from RoyNat Limited to assist in the capital expenditure program. Additions to fixed assets amounted to $633,000 during the year, 70% of which was installed during the last quarter.

THE OUTLOOK

The recent expenditures on new equipment will enable your company to supply high quality yarns to one of the fastest growing areas of the trade, knitted fabric for ladies' dresses and men's suitings.

EMPLOYEE RELATIONS

The Company entered into a two year agreement with the union representing its employees effective January 1, 1970.

The Directors wish to thank the employees for their devoted and sincere efforts which have brought the company through a difficult year.

ABE GOLD,
President

Riverside Yarns Limited

STATEMENT OF PROFIT AND LOSS

Year ended December 31, 1969
(with comparative figures for 1968)

	1969	1968
Sales	$4,797,135	$4,745,554
Cost of goods sold, excluding depreciation	4,070,176	3,982,072
Gross profit	726,959	763,482
Selling and administrative expenses	330,138	287,948
Interest on long-term debt	46,425	23,483
Financing expenses amortized	1,665	1,636
	378,228	313,067
Profit before undernoted items	348,731	450,415
Profit on sale of fixed assets	10,845	2,399
	359,576	452,814
Depreciation	183,577	123,146
Profit before income taxes	175,999	329,668
Income taxes (note 5)		
Current	38,959	71,329
Deferred	44,436	85,861
	83,395	157,190
NET PROFIT FOR THE YEAR	$ 92,604	$ 172,478

STATEMENT OF RETAINED EARNINGS

Year ended December 31, 1969
(with comparative figures for 1968)

	1969	1968
Balance at beginning of year	$ 608,066	$ 435,588
Net profit for the year	92,604	172,478
	700,670	608,066
Dividends on Class A shares	60,000	—
Legal expenses re capital reorganization	6,614	—
	66,614	—
BALANCE AT END OF YEAR	$ 634,056	$ 608,066

Riverside

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended December 31, 1969
(with comparative figures for 1968)

	1969	1968
SOURCE OF FUNDS		
Operations		
Net profit for the year	$ 92,604	$ 172,478
Add items not involving current funds		
Depreciation	183,577	123,146
Financing expenses amortized	1,665	1,636
Deferred income taxes	44,436	85,861
	322,282	383,121
Sale of fixed assets	18,648	6,728
Advances under mortgages payable	300,000	283,000
	640,930	672,849
APPLICATION OF FUNDS		
Additions to fixed assets	632,762	544,379
Principal on long-term debt paid or included in current liabilities	139,900	31,620
Financing expenses incurred	8,891	1,495
Dividends on Class A shares	60,000	—
Legal expenses re capital reorganization	6,614	—
	848,167	577,494
INCREASE (DECREASE) IN WORKING CAPITAL	(207,237)	95,355
WORKING CAPITAL AT BEGINNING OF YEAR	621,510	526,155
WORKING CAPITAL AT END OF YEAR	$ 414,273	$ 621,510

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Current assets	$1,624,884	$1,535,682
Current liabilities	1,210,611	914,172
	$ 414,273	$ 621,510

Riverside Yarns Limited

(Incorporated under the laws of Ontario)

BALANCE SHEET — DECEMBER 31, 1969

(with comparative figures at December 31, 1968)

ASSETS

	1969	1968
CURRENT ASSETS		
Cash	—	$ 43,387
Accounts receivable	$ 844,315	721,404
Income taxes recoverable	33,568	—
Mortgage advance receivable	—	65,354
Inventories (note 1)	639,491	624,101
Prepaid expenses	107,510	81,436
	1,624,884	1,535,682
FIXED ASSETS (note 2)		
Land, buildings, machinery and equipment	2,596,896	2,100,642
Less accumulated depreciation	1,250,997	1,185,280
	1,345,899	915,362
DEFERRED CHARGES TO OPERATIONS	12,069	4,843
	$2,982,852	$2,455,887

LIABILITIES

CURRENT LIABILITIES		
Bank advances (note 3)	$ 386,599	—
Accounts payable and accrued liabilities	650,247	$ 749,139
Income and other taxes payable	18,365	85,433
Dividends payable	15,000	—
Principal due within one year on long-term debt	140,400	79,600
	1,210,611	914,172
LONG-TERM DEBT (note 4)	655,000	494,900
DEFERRED INCOME TAXES (note 5)	125,185	80,749

SHAREHOLDERS' EQUITY

CAPITAL STOCK (notes 6 and 7)		
Authorized		
30,000 Class A $2 cumulative participating shares without par value		
100,000 Common shares without par value		
Issued		
30,000 Class A shares 40,000 Common Shares	358,000	358,000
RETAINED EARNINGS	634,056	608,066
	992,056	966,066
	$2,982,852	$2,455,887

Approved by the Board

Director: A. GOLD

Director: S. E. EDWARDS

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 1969

1. INVENTORIES

	1969	1968
Raw materials	$ 105,792	$ 163,091
Work in process	89,962	142,696
Finished goods	443,737	318,314
	$ 639,491	$ 624,101

Raw materials are valued at lower of cost and replacement cost. Work in process and finished goods are valued at lower of cost and net realizable value.

2. FIXED ASSETS

	1969			1968
	Asset value	Accumulated depreciation	Net	Net
Land	$ 6,600		$ 6,600	$ 6,600
Buildings	381,126	$ 250,008	131,118	129,623
Machinery and equipment	2,209,170	1,000,989	1,208,181	779,139
	$2,596,896	$1,250,997	$1,345,899	$ 915,362

Fixed assets are valued at replacement value as of April 20, 1928 as per appraisal of Dominion Appraisal Co., Limited with subsequent additions at cost.

3. BANK ADVANCES

Accounts receivable and inventories are pledged as security for bank advances.

4. LONG-TERM DEBT

	1969	1968
6½% First mortgage sinking fund bonds, Series A, maturing September 15, 1972	$ 80,000	$ 89,500
9% Mortgage loan, maturing February 22, 1975	415,400	485,000
12% Mortgage bond, maturing December 15, 1975	300,000	
	795,400	574,500
Less principal included in current liabilities	140,400	79,600
	$ 655,000	$ 494,900

Principal due within each of the next five years is as follows:
1970—$140,400; 1971—$140,400; 1972—$190,400; 1973—$130,400; 1974—$130,400.

5. INCOME TAXES

The company charges earnings with income taxes currently payable and also with income taxes deferred by claiming capital cost allowance in excess of depreciation recorded in the accounts. The accumulated total of such income tax deferments is reflected in the balance sheet as "Deferred income taxes".

6. CAPITAL STOCK

Dividends on Class A shares have been paid to August 15, 1955 and arrears at December 31, 1969 amount to $28.75 per share totalling $862,500. Subsequent to December 31, 1969 these arrears were extinguished as described in note 7.

The company shall not, without prior consent of the holder of the 9% mortgage loan declare or pay dividends on its capital stock unless available funds (defined as net profit before depreciation but after income taxes and profit sharing) for the previous year exceed $160,000 and then only to the extent of $90,000.

Riverside Yarns Limited

7. CAPITAL REORGANIZATION

By supplementary letters patent dated January 7, 1970 the company's authorized and issued capital stock was changed as follows:

(a) Each of the issued and unissued common shares were subdivided into two new common shares.

(b) The issued Class A shares were reclassified into cumulative convertible Class A shares and new common shares on the basis of four new Class A shares and three new common shares for each old Class A share.

The new Class A shares are convertible into new common shares on the basis of one common share for each two Class A shares converted.

(c) All unpaid accumulated and accrued dividends on the old Class A shares were terminated and extinguished.

As of January 7, 1970 the authorized and issued capital of the company is as follows:

Authorized

120,000 Class A $ .50 cumulative convertible voting shares without par value.
290,000 Common shares without par value.

Issued

120,000 Class A shares 170,000 Common shares	}	$358,000

8. OTHER STATUTORY INFORMATION

Remuneration of directors and senior officers: 1969, $65,579; 1968, $67,022.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
RIVERSIDE YARNS LIMITED

We have examined the balance sheet of Riverside Yarns Limited as at December 31, 1969 and the statements of profit and loss, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

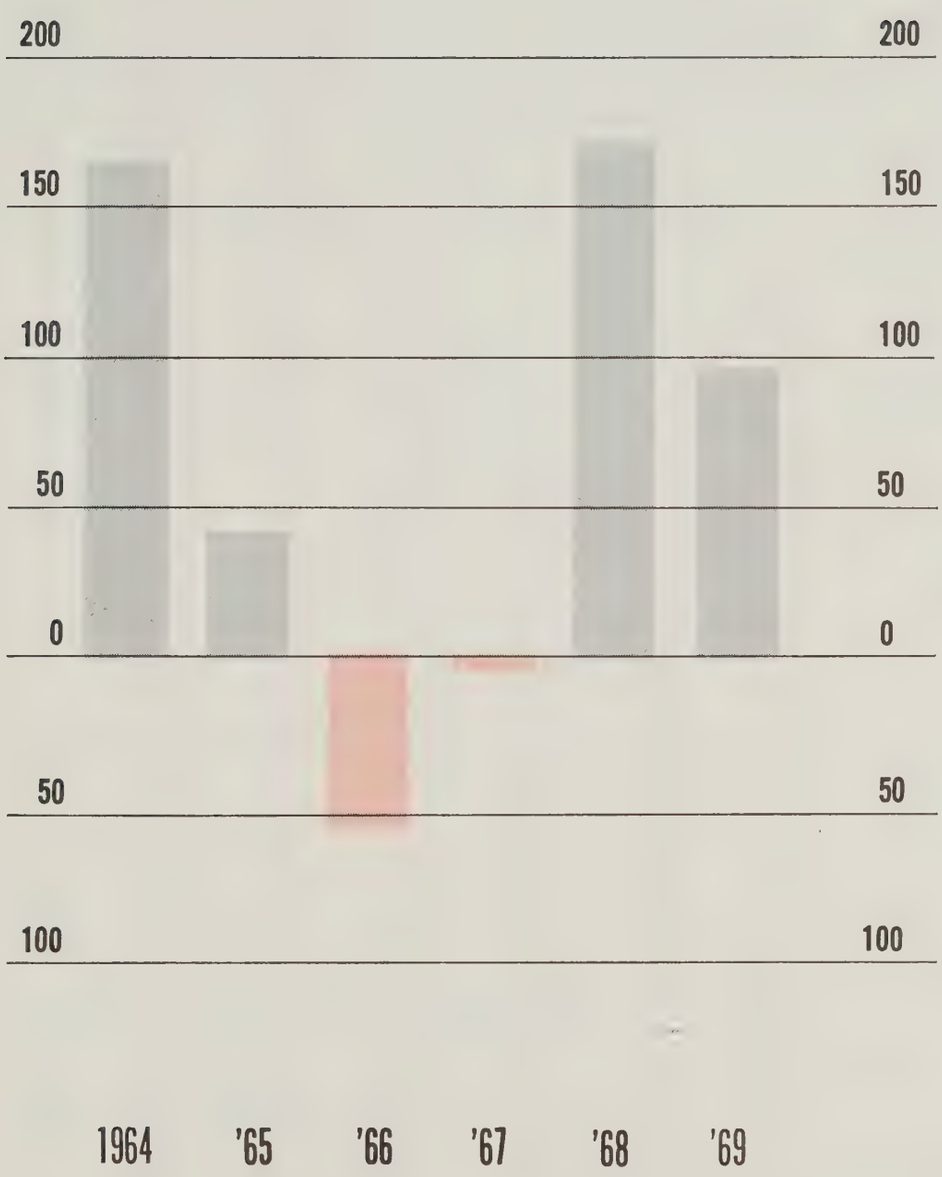
In our opinion these financial statements present fairly the financial position of the company as at December 31, 1969 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THORNE, GUNN, HELLIWELL & CHRISTENSON,
Chartered Accountants.

Galt, Ontario
February 10, 1970

PROFIT and LOSS

Thousands of dollars



Riverside Yarns Limited

SALES

SALES IN MILLIONS OF DOLLARS

Six Year
Financial Summary
See Overleaf

SIX YEAR FINANCIAL SUMMARY

INCOME AND EXPENSE

	1969	1968	1967	1966	1965	1964
Sales	$4,797,135	$4,745,554	$3,615,773	$2,792,888	$3,144,077	$3,504,747
Cost of goods sold excluding depreciation	4,070,176	3,982,072	3,266,049	2,533,180	2,744,846	2,940,755
Gross profit	726,959	763,482	349,724	259,708	399,231	563,992
Selling and administrative expenses	327,538	286,648	223,626	194,878	179,994	201,173
Directors' fees	2,600	1,300	1,800	1,500	2,200	1,600
Interest on long-term debt	46,425	23,483	30,105	33,692	40,800	23,395
Financing expenses amortized	1,665	1,636	2,157	2,448	3,389	2,690
	378,228	313,067	257,688	232,518	226,383	228,858
Profit before undernoted items	348,731	450,415	92,036	27,190	172,848	335,134
Profit (loss) on sale of fixed assets	10,845	2,399	999	(998)	(1,440)	(6,141)
	359,576	452,814	93,035	26,192	171,408	328,993
Depreciation	183,577	123,146	96,998	109,547	119,806	99,786
Profit (loss) before income taxes	175,999	329,668	(3,963)	(83,355)	51,602	229,207
Income taxes						
Current	38,959	71,329	—	—	—	—
Deferred	44,436	85,861	(299)	(29,404)	9,901	64,637
	83,395	157,190	(299)	(29,404)	9,901	64,637
Net profit (loss) for year	$ 92,604	$172,478	$ (3,664)	$ (53,951)	$ 41,701	$ 164,570

FINANCIAL AND OTHER INFORMATION

	1969	1968	1967	1966	1965	1964
Working capital	414,273	621,510	526,155	549,339	622,349	635,968
Working capital ratio	1.35:1	1.68:1	1.60:1	1.64:1	1.83:1	1.95:1
Long-term debt	655,000	494,900	243,520	350,480	400,880	484,700
Shareholders equity	992,056	966,066	793,588	769,252	838,203	826,492
Number of shares outstanding — Class A	30,000	30,000	30,000	30,000	30,000	30,000
Common	40,000	40,000	40,000	26,000	26,000	26,000
Equity per share — Class A	33.07	32.20	26.45	25.64	27.94	27.55
Common	—	—	—	—	—	—
Net profit (loss) per share — Class A	3.09	5.75	(.12)	(1.80)	1.39	5.49
Common	—	—	—	—	—	—
Dividends paid per share — Class A	2.00	—	—	.50	1.00	.75
Common	—	—	—	—	—	—
Dividend arrears — Class A	28.75	28.75	26.75	24.75	23.25	22.25
Cash flow from operations	322,282	383,121	95,192	28,640	176,237	337,824
% of cash flow to shareholders' equity	32.4%	39.7%	12.0%	3.7%	21.0%	40.9%
Purchase of fixed assets	632,762	544,379	43,254	42,260	74,606	229,139
Fixed assets (net)	1,345,899	915,362	500,857	558,439	631,736	678,486

NOTE: The years 1964 to 1967 have been restated to reflect deferred income taxes.

MEMORANDA

YARNS LIMITED

Galt, Ontario • Telephones 621-0200-1-2

August 18, 1969

TO THE SHAREHOLDERS:

As reported to the news media on August 12, 1969 the directors at a meeting held that day approved an Arrangement for submission to the shareholders, whereby the common shares would be subdivided into four shares for each common share now held, all arrears of dividends and all other preferential rights attaching to the Class A shares would be cancelled and the Class A shares would be reclassified as common shares on the basis that the holders would receive ten shares for each Class A share now held. As a result the Company would have only one class of shares.

An application is to be made to the Supreme Court of Ontario for an order directing the holding of separate meetings of the holders of the Class A shares and the common shares. Following the making of this order details of the Arrangement will be forwarded to the shareholders. Assuming that the Arrangement is agreed to by a three-quarters vote of each class of shares at the meetings which are to be called, sanctioned by the Court and confirmed by supplementary letters patent, it will become effective. It is anticipated that these steps can be completed over the next few months.

On the basis of the new capitalization the earnings for the full year 1968 would have been 37.5¢ per new common share. It is forecast that earnings for the full year 1969 will show an improvement of 15% over 1968.

Interim financial statements are attached for the first six months of the current year with comparative figures for the corresponding period in 1968. Sales are up 11% from $2,260,000 in 1968 to $2,514,000. Net profit after provision for depreciation and income taxes amounted to $67,000 or $2.26 per Class A share compared with $50,000 or $1.66 per Class A share in 1968.

A dividend of 50¢ per Class A share has been declared payable Wednesday, October 1, 1969 to shareholders of record Friday, September 12, 1969.

JOHN S. DEACON
Chairman of the Board

Riverside Yarns Limited

STATEMENT OF INCOME

First six months ended June 30, 1969
(with comparative figures for 1968)

	1969	1968
Sales, net	$ 2,513,655	$ 2,260,364
Cost of sales	2,083,033	1,947,952
Gross margin	430,622	312,412
Selling and administrative expenses	166,614	146,983
Directors' fees	900	700
Interest on long-term liabilities	24,746	12,123
Financing expenses amortized	584	988
	192,843	160,794
Income or (Loss) before Depreciation	237,779	151,618
Depreciation	102,134	51,651
NET INCOME before Provision for income taxes	135,645	99,967
Provision for Income taxes	67,823	49,984
NET INCOME FOR FIRST SIX MONTHS	$ 67,822	$ 49,983

Riverside Yarns Limited

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

First six months ended June 30, 1969
(with comparative figures for 1968)

FUNDS MADE AVAILABLE:	1969	1968
By operations:		
Net income (loss) for first six months	$ 136,272	$ 99,967
ADD: Sale of fixed assets	3,847	5,946
Expenses which do not involve an outlay of funds:		
Depreciation	102,134	51,651
Financing expenses amortized	584	988
TOTAL FUNDS MADE AVAILABLE	242,837	158,552
FUNDS APPLIED:		
Payments on long-term liabilities	29,400	54,480
Additions to fixed assets	204,880	153,979
Dividends	30,000	—
TOTAL FUNDS APPLIED	264,280	208,459
INCREASE (DECREASE) IN WORKING CAPITAL	(21,443)	(49,907)
Working capital at beginning of year	621,510	526,153
WORKING CAPITAL AT END OF FIRST SIX MONTHS	$ 600,067	$ 476,246
—o—		
Current assets	1,744,521	1,296,242
Current liabilities	1,144,454	819,996
	$ 600,067	$ 476,246